

## Rates Spark: Holding pattern, so edge up

The Fed and the European Central Bank are on holding patterns. Tuesday saw the data vacuum allow yields to drift lower after two days of dramatic rises. Holding patterns can be frustrating for a market that is deep discounting rate cuts. We still feel there are short-term pressures that can cause yields to re-drift higher



### Bullish impulse for bonds through Tuesday

The US saw a decent 3yr auction. There was a solid indirect bid, indicative of decent central bank interest in this tenor. It was well covered too. And it was awarded at a 0.8bp yield premium to the secondary market when issued. The latter was an impressive statistic as the market was rallying into the auction, which always runs the risk for a tail in the results.

This auction is not the big driver for Tuesday's price action. It was always expected to be decent. The auction in 10's tomorrow and 30's the day after will be bigger tests. The 10yr is on a lower yield and both have considerably higher interest rate risk relative to the 3yr. The mood on bonds has been positive through Tuesday overall though, mostly as levels were deemed concessional in the wake of the previous couple of days of sell-off.

But no more than that. Tuesday has felt a bit like a moment of reflection for the market. There was very little by the way of material US data to drive things. Eurozone rates managed to ignore the

spike in the 3yr ECB CPI expectations measure to 2.5% (from 2.2%). And the 1yr inflation expectations measure held steady at 3.2%, which is still not where it needs to be.

## Still tactically bearish on bonds, small...

Our viewpoint on the market has not changed. We see enough residual evidence from inflation metrics in both the US and the eurozone that is still clinging to the 3% area on many measures, and not yet convincingly damned to get to 2%. The US also continues to flash evidence of macro resilience (e.g. consumer confidence and payrolls) amid bouts of warning signs (Fed lending survey).

But looking through it all, we see the ECB and Fed on holding patterns, which can frustrate market yields higher. Still a tactical call, just over the coming few weeks. Wednesday's 10yr auction will garner most attention, as data is mostly second tier in nature and not enough to really spark direction.

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